HAMBRO CANADA (1972) LIMITED

1973 ANNUAL REPORT

HAMBRO CANADA (1972) LIMITED

HEAD OFFICE

Suite 1104, Royal Trust Tower,
Toronto-Dominion Centre,
Toronto M5K 1H6

As of April 4, 1974

HAMBRO CANADA (1972) LIMITED

TO THE SHAREHOLDERS:

During 1973, your Company rationalized and consolidated its asset base, particularly in the fields of real estate, financial services and food merchandising. Consequently, the past year witnessed a substantial growth in the net profit, cash flow and assets of Peel-Elder Limited as the scope and size of its developments expanded. The sale of certain peripheral subsidiaries of FOODEX Systems Limited created resources which will permit an accelerated expansion of the successful PONDEROSA STEAK HOUSES. While Ontario Trust Company recorded a significant gain in mortgage loans, profitability was less than in 1972 because of higher interest and administrative expenses. It was disappointing that a proposed merger with Metropolitan Trust Company did not become effective but we believe that the future of Ontario Trust Company is bright. Additional capital by the issue of preference shares is currently being proposed by Ontario Trust Company which will enlarge the deposit base.

Despite the favourable overall improvement in the operating structure and earnings of your Company's three major investments, consolidated earnings for 1973 were disappointing and well below the level of 1972. Whereas in 1972 substantial profits were realized from security trading and the sale of special situations, in 1973 earnings were affected adversely by the poor performance of North American equity markets which resulted in unsatisfactory returns from some of the larger equity positions, despite generally improved corporate results and favourable longer term prospects for the companies involved.

On October 31, 1973 Mr. C. F. Watson resigned as a director for reasons of health. Mr. H. F. Teney was elected a director on April 4, 1974.

Your Company is continually seeking opportunities which will broaden its asset base and profitability. During 1973, numerous situations were studied, and with the exception of the participation in the Sunningdale Oils Limited investment none met our long term objectives. Our intention is to pursue expansion not only in Canada but also in the United States. Moreover, we plan to broaden our merchant banking activities in individual asset management and corporate financial advice. For this purpose our management team has been strengthened.

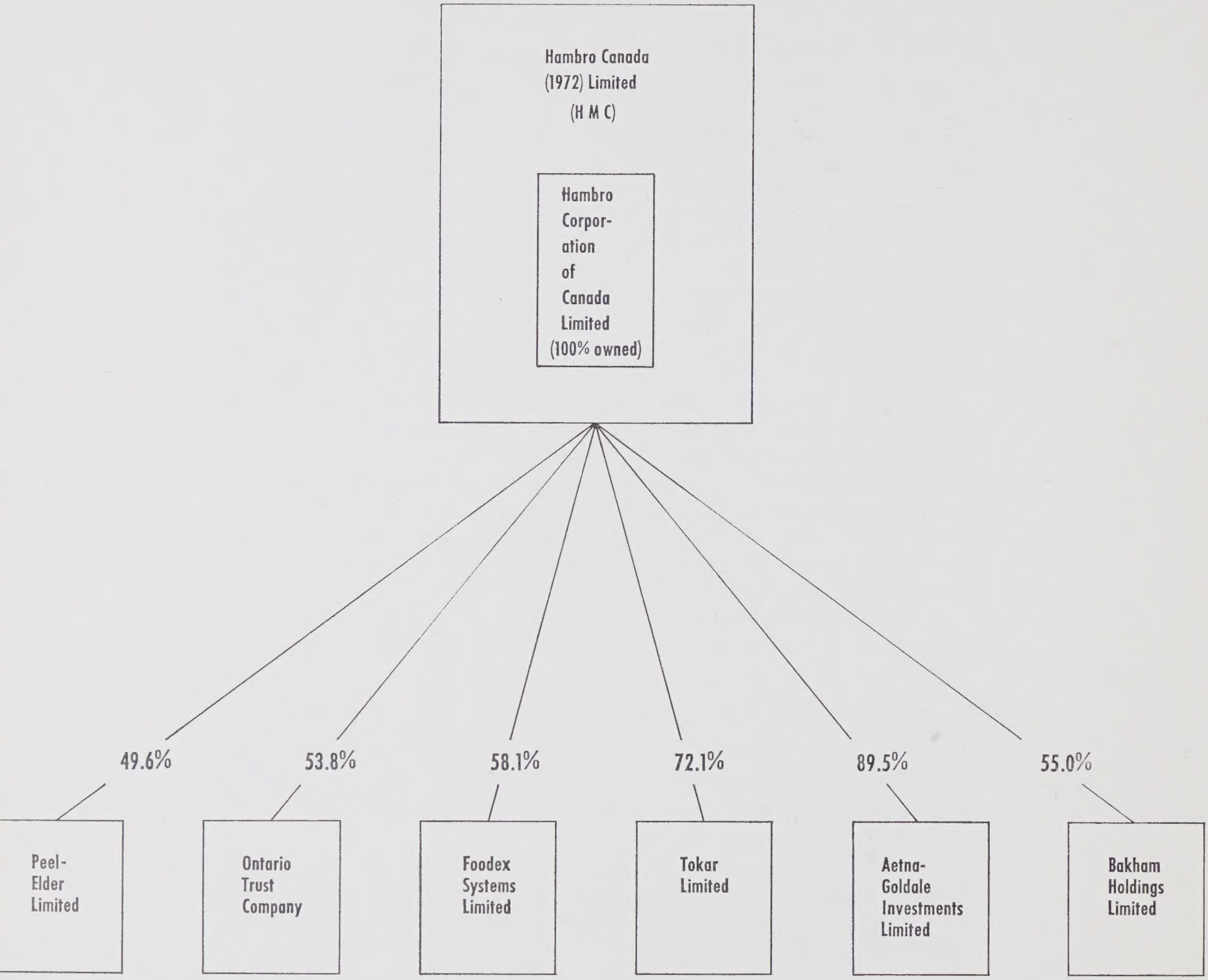
In view of the many current political and economic uncertainties it is extremely difficult to predict accurately the trend of general business in 1974. However, provided we can operate in a reasonable economic environment and a stable political climate we are confident that significant progress can be achieved.

On Behalf of the Board of Directors

Chairman	K A Roberts *Deputy Chairman*	E R E Carter *President and Chief Executive Officer*

April 4, 1974

HAMBRO CANADA (1972) LIMITED



As of April 4, 1974

REVIEW OF GROUP HOLDINGS

PEEL-ELDER LIMITED

The shares of Peel-Elder are listed on the Toronto, Montreal, American and Pacific Coast Stock Exchanges.

Peel-Elder is a major real estate company engaged in land development, residential and commercial construction and the ownership and management of diversified properties.

(Reference is made to the Financial Statements, Appendix A and Note F thereto as to HMC's holding in Peel-Elder and its share of Peel-Elder's 1973 net income).

FINANCIAL HIGHLIGHTS

	1973	1972
Net Profit for the Year	$ 2,483,162	$ 1,326,646
Per Share	76¢	45¢
Cash Flow from Operations	5,119,502	2,708,212
Per Share	$1.56	91¢
Revenue from Income Producing Properties	9,069,302	5,014,577
Total Revenue	21,604,572	6,457,134
Total Assets	110,275,434	56,688,369
Average Number of Shares Outstanding — after giving effect to the stock split in 1973	3,283,374	2,969,988

EXCERPTS FROM THE 1973 ANNUAL REPORT

"In January 1973 the Company acquired the remaining 50% interest in the Peel Village Highlands joint venture development located in the City of Cambridge, Ontario and in other lands in Metropolitan Toronto and certain other locations in Ontario. Later in 1973, the Company acquired the remaining 50% interest in Graydon Hall Manor apartments (888 suites) and land suitable for another building of approximately 200 units. Consequently, the asset base and revenue generating ability of the Company have been greatly expanded.

At December 31, 1973, the Company's investment properties comprised:

Shopping Centres	
— net retail selling space	1,166,889 square feet
Apartment Units	
— completed	3,439
— under construction	395
	3,834

Construction of the first phase of the residential development at Peel Village Highlands in Cambridge commenced at the beginning of 1973 and by the year end 136 units were completed with an additional 51 units under construction. Sales have gone well. Construction is expected to continue satisfactorily during 1974. The development area is well situated being close to highway 401 and in an attractive neighbourhood. As a result of good urban planning phases 1 and 2 of the project will have their density reduced to approximately 925 residential units instead of 1,100 as previously contemplated. School sites and parkland areas have been determined and acreage exists for a commercial retail centre to service the new community. The area is in one of Ontario's most rapidly growing population centres.

In North York, Toronto, 89 townhouses were built in the development area owned by the Company on the site of the former Forest Hills Golf Course. This is a prime area with the benefit of a large conservation area immediately next to the property. In large part completed in 1973, all the units were sold in the first quarter of 1974 and as a result of this, construction of the next stage comprising 95 units will commence in the second half of 1974. In the same area, a 259 unit high rise apartment

building was substantially completed and began renting in February 1974. We anticipate that the shortage of apartments in Toronto will result in a successful start-up over the next few months with occupancies closely following the completion of the finishing of each of the floors in the building. Sufficient land remains to permit the construction of four more high rise towers or townhouse developments.

In Brampton, your Company moved closer to the development stage of lands around the shopping centre. The Minister of Housing for Ontario has declared the Brampton area as being critically short of housing and has urged the municipality to do all in its power to accelerate the supply of accommodation. An overall conceptual plan has been created to allow for a co-ordinated development of your Company's properties, restricting the height of the high rise apartment buildings and providing for green areas and school sites. The Company continues to maintain on a breakeven basis a nine hole golf course as a recreation facility. The many levels of government required to protect the public interest take substantial time to assess each application. It is difficult to predict when construction will commence but it is hoped that it will be in 1974.

Preliminary plans have been made for the expansion of the Company's three regional shopping centres. Although it is not likely that construction will occur in 1974, firm plans will be drafted for approval by the municipal authorities. The centres are well located and have shown gains in retail sales in 1973.

The apartment rental division was expanded during the year and the occupancy rate by December 31, 1973 was approaching one hundred per cent. Construction costs and interest rates are such that with rents at the present level it is difficult for any developer to justify new construction. This will lead to a scarcity of accommodation until rents reach a level consistent with the recent rise in the price indices affecting land and construction costs.". . . .

"The Company is financially strong and has a number of projects in the construction or planning stage. 1974 should be another record year for earnings".

ONTARIO TRUST COMPANY

The shares of Ontario Trust are listed on The Toronto Stock Exchange.

Ontario Trust is engaged in accepting deposits from the public and in mortgage lending as well as providing a variety of trust, consumer lending and real estate brokerage services in the Province of Ontario. At December 31, 1973 Ontario Trust had total assets of over $181 million.

(Reference is made to the Financial Statements, Appendix A and Note E thereto as to HMC's holding in Ontario Trust and its share of Ontario Trust's 1973 net income).

Financial Highlights

	1973	1972
Total Assets	$181,247,000	$136,149,000
Total Deposits	169,609,000	125,091,000
Net Operating Profit for the Year	747,000	758,000
Net profit for the Year	747,000	779,000
Per Share	50¢	53¢
Weighted average number of shares outstanding	1,505,195	1,461,424

Excerpts From The 1973 Annual Report

"Another major area of expansion during 1973 was in our branch organization. In a planned program to broaden our representation in the Province we opened an office in the new city of Cambridge. Ontario Trust was a relatively new name to this rapidly developing section of the Province but it is clear from the business developed to date that your Company is receiving widespread acceptance and we look forward to continuing growth in all aspects of our business in Cambridge and the surrounding

area. Our New Liskeard office opened for business in May. We had previously serviced this area from Kirkland Lake but the volume of existing and potential business persuaded us to open a new office specifically to service the Tritown area. A further step in the expansion of our branch operation was the addition late in the year of a second office in the east end of Windsor. In addition to opening these three new offices, major improvements have been effected to our offices in Brampton where our space has been doubled and in Kingston where we have constructed a totally new building. The excellent reaction by the public to these new and enlarged premises is clearly evident from the results.

The expansion in business resulted in a sharp growth in income from $9.8 million to $13.9 million. This spectacular growth rate was not achieved without an unusually heavy increase in operating costs, so that earnings before taxes for the full year increased only marginally from $1,424,000 to $1,453,000. After providing for the increased rate of corporate income tax, the net income for the year was $747,000 against the restated profit in the previous year of $779,000. It is anticipated that the use of funds raised in 1973 will improve the profit picture in subsequent years. The two major factors affecting operating costs were the rising pattern of interest rates which continued throughout the year and the escalation in salary costs. Part of the higher salary costs resulted from an increase in the number of staff required to handle the growing volume of business and to operate the new branches, but the major portion results from the effects of an unprecedented increase in the cost of living. We administer a competitive salary program but at the same time we are continuing to make every effort to improve the efficiency of our operation and keep increased costs under control. The success of these efforts is reflected in the fact that the ratio of personnel to each million dollars on deposit was reduced from 1.34 persons in 1971 to 1.01 persons at the end of 1973 without diminishing the quality of our services to the public. Looking to the future, your Company is continuing to improve and broaden the range of its existing services and is looking for additional profitable services to provide its customers".

FOODEX SYSTEMS LIMITED

The shares of Foodex are listed on the Toronto and Montreal Stock Exchanges.

Foodex is engaged principally in food services, its major operation being the Ponderosa Steak House. Through a 61.9% owned subsidiary it controls three racetracks in the United States.

(Reference is made to the Financial Statements, Appendix A and Note D thereto as to HMC's holding in Foodex and its share of Foodex' 1973 net income).

Financial Highlights

	1973	Per Share	1972	Per Share
Consolidated Gross Revenue	$51,390,226		$36,150,284	
Income before extraordinary items and after minority interest	1,789,344	.42	1,020,880	.25
Net income after extraordinary items	1,806,247	.42	1,030,541	.25
Cash flow from operations	5,333,761	1.24	3,375,224	.83
Shares outstanding (weighted average)	4,305,638		4,062,347	

Ponderosa Steak House Highlights

	1973	1972	1971
Sales	$15,900,000	$5,700,000	$ 188,000
Net Income After Tax	1,300,000	400,000	(140,000)
Earnings per Share	$ .30	$ .10	($ .035)
Employees	3,000	1,200	200
Steak Houses Open	48	21	3

Excerpts From the 1973 Annual Report

"A year ago we stated that the results of your Company's Ponderosa Steak House Division dictated that Ponderosa be the Company's main immediate thrust. During the year, we advised that an upward revision of the original target of opening 80 units across Canada by the end of 1975 was being considered in light of the continuing success of the operation. Major steps have been taken to meet these objectives.

During 1973, and to date, in keeping with the policies outlined above and as previously reported in part, the Honeydew coffee shops in Toronto, the Tout' Suites in Montreal, the Honeydew drink division, Fortier & Associates and Ruby Foo's were disposed of on satisfactory terms. The net contribution of these divisions to earnings in 1973 was 5¢ per share. This will be more than offset in future years by the reduction in interest charges that will result from the application of the proceeds of these sales against bank indebtedness.

48 Ponderosa units were opened by December 31, 1973, 50 are now open and at least 25 more units will be opened during 1974. Emphasis in 1974 will be placed on openings in the Atlantic and Western Provinces. We anticipate that the financing of this accelerated expansion program will be achieved without equity dilution.

Earnings of Foodex were 42¢ per share (an increase of 68% based on a weighted average of 6% more shares outstanding). These highly satisfactory results are expected to show a marked improvement in 1974".

TOKAR LIMITED

Tokar shares are listed on the Vancouver Stock Exchange.

On November 5, 1973, HMC invited tenders of its common shares for purchase by it at a price per HMC share flat (Canadian funds) to be set by the seller. Pursuant to this invitation, HMC accepted tenders for 1,148,094 HMC shares for a total purchase price of $7,462,298.25 and during the period December 12, 1973, up to and including January 4, 1974, as the certificates for the shares were received and paid for, the same were cancelled.

Tokar, which held 1,135,559 HMC shares or approximately 14% of the issued and outstanding HMC shares, tendered 1,134,759 HMC shares at a price of $6.50 per share and subsequently received payment of $7,375,933.50.

Tokar is in a strong liquid position and continues to seek appropriate investment opportunities.

AETNA-GOLDALE INVESTMENTS LIMITED

Aetna-Goldale shares are listed on the Toronto and Vancouver Stock Exchanges.

Its net assets are liquid and aggregate $4.1 million after providing in full for income tax, in the amount of $458,000, the liability for which is presently being contested. Suitable investment situations are being sought.

BAKHAM HOLDINGS LTD.

(Reference is made to the Financial Statements, Appendix A and Note G thereto as to HMC's holding in Bakham and its share of Bakham's 1973 net income).

The reorganization of Bakham's business continues and plans for improving operational efficiency are being studied.

SUNNINGDALE OILS LIMITED

During 1973, HMC, together with other members of the Hambros Limited Group purchased an aggregate of 500,000 common shares and received 200,000 share purchase warrants for an aggregate consideration of $5,000,000. The share purchase warrants are exercisable at a price of $13.00 per share up to and including December 31, 1974 or after Sunningdale shares have traded for 30 consecutive trading days at not less than $15.00 whichever is the earlier. HMC participated in this investment to the extent of 150,000 shares and 60,000 warrants.

Sunningdale is actively engaged in exploration for oil and gas in many areas of the world including the North Sea and Abu Dhabi.

AUDITORS' REPORT

To the Shareholders of

Hambro Canada (1972) Limited:

We have examined the consolidated balance sheet and the consolidated summary of investments of Hambro Canada (1972) Limited as at December 31, 1973 and the consolidated statements of earnings, contributed surplus, retained earnings and changes in financial position for the year then ended. For Hambro Canada (1972) Limited and its consolidated subsidiaries and for those companies accounted for by the equity method of which we are auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For all other companies accounted for by the equity method, we have relied on the reports of the auditors who examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Canada,
March 29, 1974.

Clarkson, Gordon & Co.
Chartered Accountants

ASSETS

	1973	1972
Cash and bank deposit receipts	$ 1,084,000	$ 2,012,000
Trading securities, at the lower of average cost and market (quoted market value—$9,626,000; 1972—$7,501,000) (notes 1(c) and 5)	9,626,000	7,484,000
Receivables:		
Mortgages, loans and other receivables (notes 4 and 6)	4,208,000	4,343,000
Due under employee share purchase plans (note 7)	1,497,000	—
	5,705,000	4,343,000
Investments (see consolidated summary of investments—Appendix A) (notes 1(b), 4 and 5)	54,873,000	48,187,000
Real estate (note 4)	—	12,218,000
Other assets	65,000	161,000
	$71,353,000	$74,405,000

(See accompanying notes to consolidated financial statements)

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1973
(with comparative figures at December 31, 1972)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
Liabilities:		
Bank demand loans (note 5)	$20,672,000	$11,866,000
Accounts payable and accrued (note 4)	554,000	2,445,000
Income and other taxes payable (note 11)	84,000	610,000
Bank term loan (note 5)	15,000,000	15,000,000
Mortgages payable and balance due under purchase agreement (note 4)	—	9,981,000
Deferred income taxes	—	133,000
	36,310,000	40,035,000
Minority interest (note 8)	5,085,000	2,986,000
Shareholders' equity (notes 3 and 9)		
Capital	29,064,000	33,861,000
Contributed surplus	519,000	605,000
Retained earnings	375,000	3,673,000
	29,958,000	38,139,000
Less cost of interest (64.85%) in 1,135,559 shares of the Company held by a subsidiary (note 3(b))	—	6,755,000
	29,958,000	31,384,000
	$71,353,000	$74,405,000

On behalf of the Board:

K A Roberts Director

E R E Carter Director

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA (1972) LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for the nine months ended December 31, 1972)

	Year ended December 31, 1973	Nine months ended December 31, 1972
Income:		
Equity in earnings of—		
Unconsolidated subsidiaries	$ 1,457,000	$ 704,000
Other associated companies	1,731,000	780,000
Net gain on investment portfolio changes	15,000	1,407,000
Dividends and interest	757,000	371,000
Profit on security trading less provision of $1,927,000 in 1973 to reduce carrying value of trading securities (note 1(c))	(305,000)	554,000
Other income	272,000	102,000
Earnings before the undernoted	3,927,000	3,918,000
General and administrative expenses	678,000	394,000
Interest	2,805,000	963,000
	3,483,000	1,357,000
Minority interest (note 8)	141,000	113,000
	3,624,000	1,470,000
Earnings before income taxes and extraordinary item	303,000	2,448,000
Income taxes		
Current	21,000	187,000
Deferred	(133,000)	—
	(112,000)	187,000
Earnings before extraordinary item	415,000	2,261,000
Income tax recovery as a result of carry-forward of prior years' losses of certain subsidiaries (note 10(c))	106,000	—
Earnings for the period	$ 521,000	$ 2,261,000
Earnings per share (note 9):		
Earnings before extraordinary item	$ 0.06	$ 0.40
Earnings for the period	$ 0.07	$ 0.40

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA (1972) LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for the nine months ended December 31, 1972)

	Year ended December 31, 1973	Nine months ended December 31, 1972
Contributed surplus, beginning of period	$ 605,000	$ 3,945,000
Add premium on issue of common shares of Hambro Corporation of Canada Limited (H.C.C.) prior to exchange of shares with the Company	—	1,726,000
	605,000	5,671,000
Deduct:		
Amount effectively capitalized on exchange of shares of H.C.C. for shares of the Company (note 2)	—	5,066,000
Amount applied on the cancellation of shares of the Company (note 3(b))	86,000	—
Contributed surplus, end of period	$ 519,000	$ 605,000

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for the nine months ended December 31, 1972)

	Year ended December 31, 1973	Nine months ended December 31, 1972
Retained earnings, beginning of period	$ 3,673,000	$ 8,857,000
Earnings for the period	521,000	2,261,000
	4,194,000	11,118,000
Deduct (add):		
Adjustments arising on exchange of shares of H.C.C. for shares of the Company (note 2)	—	7,475,000
Realization of excess of ascribed fair value of net assets over book value at September 30, 1972 (note 3(d))	(1,034,000)	(223,000)
Share issue and other costs relating to the share exchange (net of tax reduction of $143,000)	—	159,000
Dividends on preferred shares of H.C.C. prior to exchange of shares with the Company	—	34,000
Amount applied on the cancellation of shares of the Company (note 3(b))	4,853,000	—
	3,819,000	7,445,000
Retained earnings, end of period	$ 375,000	$ 3,673,000

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA (1972) LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for the nine months ended December 31, 1972)

	Year ended December 31, 1973	Nine months ended December 31, 1972
Source of Funds:		
Proceeds on sale of—trading securities	$12,404,000	$12,419,000
—investment securities	205,000	3,169,000
	12,609,000	15,588,000
Increase in bank borrowings—demand	8,806,000	6,472,000
—term	—	15,000,000
Proceeds on sale of assets and investment in associated company (note 4)	7,095,000	—
Dividends, interest and other income receipts	910,000	443,000
Reduction in cash and bank deposit receipts	928,000	2,812,000
Minority interest	1,974,000	—
Sale of shares of consolidated subsidiaries under employee share purchase plans	597,000	—
Total consideration attributed to increase in capital	1,080,000	18,041,000
Less attributed to acquisition of Canadian Goldale Corporation Limited	—	(15,720,000)
	$33,999,000	$42,636,000
Use of Funds:		
General operating expenses, including income taxes	$ 3,512,000	$ 1,657,000
Add credits (deduct charges) not requiring an outlay of funds—		
Depreciation	—	(6,000)
Minority interest net of dividends paid	(7,000)	(79,000)
Income taxes deferred	133,000	—
	3,638,000	1,572,000
Acquisitions—		
Foodex Systems Limited	—	14,343,000
Tokar Limited	993,000	6,934,000
Other investments	8,328,000	1,769,000
Trading securities	14,851,000	11,307,000
	24,172,000	34,353,000
Net cost of acquiring outstanding interest in Company's shares (note 3(b))	2,243,000	—
Increase in amount due under employee share option plans	1,497,000	—
Reduction in accounts payable and accrued	1,538,000	3,871,000
Increase (reduction) in mortgages, loans and other receivables	349,000	(2,255,000)
Purchase for cancellation of debentures of Canadian Goldale Corporation Limited	—	4,777,000
Other (net)	562,000	318,000
	6,189,000	6,711,000
	$33,999,000	$42,636,000

(See accompanying notes to consolidated financial statements.)

HAMBRO CANADA (1972) LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1973

1. Accounting policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

(a) Basis of consolidation—

The consolidated financial statements include the accounts of the Company and those subsidiaries whose activities are integrated with those of the Company. Integrated activities are considered to be those of a holding or investment company nature. Other non-integrated subsidiaries are held as investments and accordingly are accounted for as such.

The consolidated subsidiaries and the Company's percentage ownership therein at December 31, 1973 are as follows:

	% owned	
Hambro Corporation of Canada Limited (H.C.C.)	100.0%	
Anglo-Scandinavian Securities Ltd.	100.0	*
Noctin Securities Ltd.	100.0	*
Locmin Ltd.	100.0	*
Goldale Acceptance Limited	100.0	
Aetna-Goldale Investments Limited	89.5	
Tokar Limited	71.1	*

*Held through H.C.C.

Since the share exchange transaction described in note 2 left the former common shareholders of H.C.C. with a majority of the shares of the Company, the exchange is treated on consolidation as an acquisition by H.C.C. on the purchase basis of accounting of the net assets and business of the Company. All other subsidiaries are also consolidated on the purchase basis of accounting except for Aetna-Goldale Investments Limited which is consolidated on the pooling of interests basis of accounting.

(b) Investments in unconsolidated subsidiaries and associated companies—

The subsidiaries which are not consolidated are Foodex Systems Limited and Ontario Trust Company. The percentages of shares of these subsidiaries which were controlled at December 31, 1973 were 58.0% and 53.8% respectively.

These subsidiaries are accounted for on the equity basis. Under the equity basis of accounting, the investments were initially recorded in the consolidated balance sheet at cost with the carrying values increased to recognize the Company's share of their income subsequent to the dates of investment.

Investments in other associated companies (those in which the Company exercised significant influence with 50% or less of the voting shares) as well as investments in joint realty developments are also accounted for on the equity basis of accounting.

Any difference between the purchase price of an investment in an associated company and the estimated fair value of the underlying net tangible assets is left unamortized in the carrying value of the investment unless it becomes apparent that the value of the related investment is impaired.

(c) Trading securities—

The Company follows the policy of valuing trading securities at the lower of average cost and market, as determined by comparing the aggregate cost of the portfolio with its aggregate market value.

2. Share exchange

As of September 30, 1972, the Company, then Canadian Goldale Corporation Limited, made an offer to the common shareholders of H.C.C. to exchange treasury shares at an ascribed fair value of $5.50 per

share, for outstanding common shares of H.C.C. As at February 26, 1973, this offer had been accepted by shareholders owning 99.21% of the outstanding H.C.C. common shares, resulting in the issue of 5,053,611 shares of the Company, all of which shares were treated as issued in the consolidated financial statements as at December 31, 1972. Later in 1973, a further 40,226 shares of the Company were issued in exchange for the remaining H.C.C. shares for a consideration of $221,000 ($5.50 per share).

3. SHAREHOLDERS' EQUITY

(a) The amount shown for capital of the Company is made up as follows:

Authorized—

8,851,906 shares of no par value

Issued—

	December 31, 1973	December 31, 1972
Legal paid-up capital	$43,694,000	$49,839,000
Less: accounting adjustments required by principles of accounting for business combinations	14,630,000	15,978,000
	$29,064,000	$33,861,000
Shares outstanding	6,903,867 shs.	7,911,735 shs.

The continuity of the Company's legal paid-up capital is as follows:

	Number of shares	Amount
Shares of Company issued prior to exchange of shares for shares of H.C.C.	2,858,124	$22,044,000
Shares issued in exchange for H.C.C. shares in 1972 (note 2)	5,053,611	27,795,000
Paid-up capital December 31, 1972	7,911,735	49,839,000
Shares issued in exchange for H.C.C. shares in 1973 (note 2)	40,226	221,000
Shares issued under employee stock purchase plan (note 7(b))	100,000	900,000
Amount of paid-up capital applicable to shares cancelled by the Company (note 3(b))	(1,148,094)	(7,266,000)
Paid-up Capital, December 31, 1973	6,903,867	$43,694,000

The accounting adjustments applied in reduction of the amount of the Company's legal paid-up capital are as follows:

The amount by which the legal paid-up capital of shares issued in 1969 for shares of the subsidiary, Aetna-Goldale Investments Limited, exceeded the value ascribed under "pooling of interest" basis of accounting		$12,796,000
In respect of shares issued in exchange for H.C.C. shares— Excess of amount credited to paid-up capital on issue of shares for H.C.C. over book value of H.C.C. net assets (including $51,000 on 40,226 shares issued in 1973)		6,551,000
Less excess of ascribed fair value of net assets of Canadian Goldale over their book value at September 30, 1972	$3,541,000	—
Less portion realized subsequent to September 30, 1972 (note 3(d))	1,257,000	2,284,000
		4,267,000
		17,063,000
Less amount applicable to shares cancelled by the Company in 1973 (note 3(b))		2,433,000
Net adjustments, December 31, 1973		$14,630,000

(b) On November 5, 1973 the Company invited its common shareholders to tender their shares for purchase by the Company at prices acceptable to the directors up to an aggregate amount of $8,000,000. As a result of this invitation,

(1) 1,134,759 shares were acquired from the then 70.8% owned subsidiary, Tokar Limited, for $7,375,933. The effective cost of these shares to the Company was—

(a) the cost of the 70.8% interest already held	$ 7,529,000
plus (b) the effective cost of acquiring the remaining 29.2% interest (29.2% x $7,375,933)	2,154,000
	9,683,000
(2) 13,335 shares were purchased from others	89,000
Total cost of 1,148,094 shares to the Company	$ 9,772,000

These shares were then cancelled, reducing shareholders' equity as follows:

Capital—*	
Legal paid-up capital	$ 7,266,000
Less applicable to accounting adjustments	2,433,000
	4,833,000
Contributed surplus*	86,000
Retained earnings (balance)	4,853,000
	$ 9,772,000

*On the basis of the average per share amount as at November 5, 1973.

(c) A total of 30,000 shares of the Company's authorized but unissued share capital is reserved in respect of an option by an officer of the Company to purchase such shares at $12 per share on or before July 29, 1974.

(d) The balance of consolidated retained earnings and the carrying value of capital are subject to compensating adjustments as the excess of the ascribed fair value of the net assets of the Company at September 30, 1972 over their book value at that date is realized in subsequent transactions. Of this excess $1,034,000 was realized in 1973 ($223,000 in 1972) and is shown as a transfer from the carrying value of capital stock to retained earnings in these financial statements.

4. Sale of Assets and Investment in Associated Company

In January 1973, the Company, together with Aetna-Goldale Investments Limited and Tokar Limited sold their real estate holdings, certain other related net assets and shareholdings in Diversco Holdings and Industries Limited for an amount resulting in neither profit nor loss. These sales were made directly or indirectly to Peel Village Developments Co. Limited, a wholly-owned subsidiary of Peel-Elder Limited (49.6% controlled by the Company at December 31, 1973) for a cash consideration of $7,095,000. The effect of these transactions was as follows:

Asset reductions:	
Mortgages receivable	$ 614,000
Investments —	
In Diversco	2,600,000
In joint realty developments	1,416,000
Real estate	12,218,000
Other assets	149,000
	16,997,000
Net liability reductions:	
Reductions in —	
Accounts payable and accrued	289,000
Mortgages payable and balance due under purchase agreement	9,981,000
	10,270,000
Less increase in income taxes payable	368,000
	9,902,000
Cash consideration on sale of real estate, related net assets and investment in Diversco	$ 7,095,000

5. Bank Loans and Security

A substantial portion of the trading securities and investments have been pledged as collateral for bank loans. The bank term loan bears interest at ¾ of 1% above the bank prime lending rate and is due in 1975.

6. Mortgages, Loans and Other Receivables

	December 31, 1973	December 31, 1972
7% mortgages on real estate due 1976 to 1979	$1,085,000	$2,226,000
8¾% unsecured demand note due from associated company	2,000,000	—
8% unsecured note due from associated company in annual instalments of $190,000 and arising from sale of a former subsidiary	760,000	950,000
12% chattel mortgages and balance due under agreement of sale	154,000	114,000
Mortgage loan to director	58,000	—
Demand loan receivable	—	836,000
Other	151,000	217,000
	$4,208,000	$4,343,000

7. Due Under Employee Share Purchase Plans

During the year, the following transactions were effected under employee share purchase plans:

(a) 125,000 shares of Tokar Limited and 125,000 shares of Aetna-Goldale Investments Limited were sold to key employees, all of whom are directors and/or senior officers of the Company, at amounts which were in excess of quoted market value at dates of sale and which resulted in neither profit nor loss to the Company. The total consideration of $597,500 consisted of non-interest bearing promissory notes of the purchasers due at various dates in 1975. The securities sold are held by a trustee and are to be released to the purchasers as payments are made on the notes.

(b) 100,000 shares of the Company were issued from treasury to a trustee at $9.00 per share. The total consideration of $900,000 consisted of non-interest bearing notes of the trustee. The shares so purchased are held as collateral security by the trustee to be released to purchasing employees as payments, due on or before January 31, 1978, are made for the shares.

8. Minority Interest

The balances shown for minority interest are made up as follows:

	1973	1972
5½% cumulative redeemable Series A preferred shares of H.C.C. of the par value of $25 each	$2,460,000*	$2,500,000*
Interest of minority shareholders of H.C.C. in net equity of that company	—	180,000
Minority interest in common shares of other consolidated subsidiaries	2,625,000**	306,000
	$5,085,000	$2,986,000

*Because the acquisition in 1972 by H.C.C. of Canadian Goldale (note 2) was carried out by means of a share issue by Canadian Goldale, the preferred shares previously issued by H.C.C. are no longer part of the legal capital of the continuing entity but form part of minority interest. These preferred shares are redeemable at a premium of 4½% on or before February 1, 1976, 3½% thereafter to February 1, 1981, 2½% thereafter to February 1, 1986 and 1½% thereafter.

**An increase of $2,154,000 in the minority interest in common shares of other consolidated subsidiaries arose in 1973 as a result of the Company's acquisition of 1,134,759 of its own shares from a 70.8% owned consolidated subsidiary, Tokar Limited (see note 3(b)). The consolidated effect of this transaction was to increase the Tokar minority shareholders' interest by its proportion (29.2%) of the amount paid to Tokar Limited ($7,375,933) for the Company's shares.

9. Earnings per share

The calculations of earnings per share are based on the weighted average of the equivalent number of Company shares outstanding throughout the period (year ended December 31, 1973—7,216,994 shares; nine months ended December 31, 1972—5,676,969 shares).

The exercise of the outstanding stock option (see note 3(c)) would have no significant dilutive effect on earnings per share.

10. Income taxes

(a) An assessment by the Department of National Revenue of the computation of the Company's taxable income for the years 1967 to 1971 is in progress. The Company's opinion regarding certain items is at variance with that of the Department and the Company is disputing all such items. However, during 1972, $429,000 was provided by the Company against the eventuality that the Department of National Revenue will levy tax with respect to all items under dispute.

(b) A subsidiary of the Company was assessed additional income taxes (including interest thereon) of $462,000 in 1972 with respect to certain gains realized in prior years. Although the subsidiary is appealing this assessment, full provision was made in 1972 for the amount thereof.

The above provisions related to periods prior to the date of effective acquisition of the Company by H.C.C. and accordingly had no effect on consolidated earnings for the nine months ended December 31, 1972.

(c) At December 31, 1972 the Company and certain subsidiaries had accumulated losses for income tax purposes of approximately $2,500,000. Such losses, which arose largely in 1973 are available to carry forward for tax purposes to apply against such income as may arise, and would otherwise be taxable in future years within the limitations prescribed by tax legislation.

11. Contingent Liability

A subsidiary, Tokar Limited, has been named defendant in an action relating to the sale of a former subsidiary in which damages of $500,000 are claimed. In the opinion of counsel the action is unfounded and the plaintiff has suffered no damage; accordingly, no provision has been made in the financial statements for such loss, if any, as may arise from the action.

12. Reclassification of 1972 Figures

Certain 1972 comparative figures have been reclassified to conform with the presentation adopted in 1973.

13. Remuneration of Directors and Senior Officers

The aggregate direct remuneration of directors and senior officers for the year ended December 31, 1973 was $187,000 (nine months ended December 31, 1972 — $57,350).

HAMBRO CANADA (1972) LIMITED
AND SUBSIDIARY COMPANIES

Unconsolidated subsidiaries and associated companies, on equity basis (note C):

Foodex Systems Limited (note D)	
Ontario Trust Company (note E)	
Peel-Elder Limited (note F)	
Bakham Holdings Ltd. (note G)	
Diversco Holdings and Industries Limited (note H)	
Other companies, at cost	
Joint realty developments, on equity basis (note I)	
Total Investments	

(See accompanying notes to consolidated summary of investments)

CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1973
(with comparative figures at December 31, 1972)

1973 Percentages of shares controlled (note A)	1973 Quoted market value (note B)	1973 Carrying value	1972 Percentages of shares controlled	1972 Quoted market value (note B)	1972 Carrying value
58.0%	$16,065,000	$15,932,000	60.4%	$27,367,000	$14,764,000
53.8%	6,674,000	9,271,000	52.0%	6,762,000	8,684,000
49.6%	15,270,000	19,108,000	35.0%	16,605,000	11,950,000
55.0%	1,163,000	1,163,000	55.0%	594,000	594,000
			100.0%	2,600,000	2,600,000
	39,172,000	45,474,000		53,928,000	38,592,000
	5,482,000	8,724,000		5,686,000	7,401,000
	$44,654,000	54,198,000		$59,614,000	45,993,000
		675,000			2,194,000
		$54,873,000			$48,187,000

(See accompanying notes to consolidated summary of investments)

NOTES TO CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1973

A. Certain stock options on treasury shares of Foodex Systems Limited, Ontario Trust Company and Peel-Elder Limited are outstanding, including options on 192,458 shares of Ontario Trust at $5.00 per share held by the Company, exercisable in part to 1975 and in part to 1978. Had these options been exercised at December 31, 1973 the Company's percentage of shares controlled at that date, would have been 57.4%, 58.9% and 48.1% respectively.

B. The quoted market values shown do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations. The shares of Bakham Holdings Ltd. are not traded on any stock exchange and for computation purposes the carrying value has been included in lieu of market value.

C. The shares of the unconsolidated subsidiaries and associated companies may not be sold publicly without the prior consent of certain regulatory authorities. In addition, investments in other companies with a book value of $610,000 at December 31, 1973 and a quoted market value at that date of $517,000 are held in escrow.

D. Foodex Systems Limited—

Foodex is a holding and operating company which directly and through wholly-owned subsidiaries is engaged in the restaurant business. A 62% owned subsidiary owns and operates three racetracks in the United States.

Net assets as at December 31:

	1973	1972
Tangible assets	$42,352,000	$33,538,000
Goodwill and other intangible assets, at cost	7,754,000	7,754,000
	50,106,000	41,292,000
Liabilities, including deferred income tax	28,017,000	22,406,000
Minority interest	4,975,000	5,226,000
	32,992,000	27,632,000
Foodex net assets as at December 31	$17,114,000	$13,660,000
Hambro '72 proportion of net assets (1973 — 58.0%; 1972 — 60.4%)	$ 9,926,000	$ 8,250,000
Adjustment to carrying value, attributed to additional goodwill and other intangible assets not requiring amortization (reduced in 1973 primarily through issue of shares from Foodex treasury)	6,006,000	6,514,000
	$15,932,000	$14,764,000

Revenue and net income for the year ended December 31:

	1973	1972
Revenue	$51,390,000	$36,150,000
Net income before minority interest	$ 2,352,000	$ 1,483,000
Minority interest in income of subsidiaries	546,000	452,000
Net income for the year	$ 1,806,000	$ 1,031,000
Hambro '72 share of net income included in consolidated earnings for the period ended December 31	$ 1,062,000	$ 421,000

E. ONTARIO TRUST COMPANY—

Ontario Trust is a loan and trust company offering full trust services including the accepting of demand and term deposits and the investing of deposited funds in securities and mortgage loans.

Net assets at December 31:

	1973	1972
Assets, excluding amounts held for Estates, Trusts and Agencies	$181,247,000	$136,149,000
Liabilities	170,755,000	126,329,000
Ontario Trust net assets at December 31	$ 10,492,000	$ 9,820,000
Hambro '72 proportion of net assets (1973 — 53.8%; 1972 — 52.0%)	$ 5,645,000	$ 5,106,000
Adjustment to carrying value attributed to goodwill which does not require amortization	3,626,000	3,578,000
Carrying value at December 31	$ 9,271,000	$ 8,684,000
Total income and net income for the year ended December 31:		
Interest and other income	$ 13,852,000	$ 9,725,000
Net income for the year	$ 747,000	$ 736,000
Hambro '72 share of net income included in consolidated earnings for the period ended December 31	$ 395,000	$ 185,000

F. PEEL-ELDER LIMITED—

Peel-Elder is a major diversified real estate company engaged primarily in land development, leasing and management and in new residential, industrial and commercial construction.

Net assets at December 31:

	1973	1972
Tangible assets	$110,275,000	$56,688,000
Liabilities, including deferred income tax	83,761,000	32,685,000
Peel-Elder net assets at December 31	$ 26,514,000	$24,003,000
Hambro '72 proportion of net assets at December 31 (1973 — 49.6%; 1972 — 35.0%)	$ 13,204,000	$ 8,401,000
Adjustment to carrying value, attributed to assets not requiring amortization	5,904,000	3,549,000
Carrying value at December 31	$ 19,108,000	$11,950,000

Revenue and earnings for the year ended December 31:

	1973	1972
Revenue	$ 21,605,000	$ 6,457,000
Net income	$ 2,483,000	$ 1,327,000
Hambro '72 share of net income included in consolidated earnings for the period ended December 31	$ 1,162,000	$ 241,000

G. BAKHAM HOLDINGS LTD.—

Bakham Holdings Ltd. is a holding company which owns approximately 97% of the shares of The Winnipeg Supply & Fuel Company, Limited. The latter company is involved in real estate, fuel oil and building supplies distribution and other activities.

The Company owns 55% of the equity shares and 50% of the voting shares of Bakham Holdings Ltd.

Net assets at December 31:

	1973	1972
Assets	$ 5,650,000	$ 8,593,000
Liabilities	2,290,000	6,024,000
Bakham net assets at December 31	$ 3,360,000	$ 2,569,000
Hambro '72 proportion of net assets (55% of equity shares)	$ 1,848,000	$ 1,413,000
Excess of share of net assets over carrying value which does not require amortization	(685,000)	(819,000)
Carrying value at December 31	$ 1,163,000	$ 594,000
Total sales and net income for the year ended December 31:		
Sales	$11,410,000	$12,671,000
Net income	$ 1,034,000	$ 973,000
Hambro '72 share of net income included in consolidated earnings for the period ended December 31	$ 569,000	$ 539,000

H. DIVERSCO HOLDINGS AND INDUSTRIES LIMITED—

On January 1, 1973 the Company sold its 100% interest in Diversco to Peel-Elder Limited (49.6% owned by the Company) for an amount equal to carrying value ($2,600,000) at that date.

I. JOINT REALTY DEVELOPMENTS—

A subsidiary is a participant in three realty developments — Cloisters Malton (50%), Cloisters Albion (50%) and Brant Hill Developments (75%).

The Company's share of the net assets of these developments, consisting primarily of mortgages receivable, was equal to carrying value at December 31, 1973.

HAMBRO CANADA (1972) LIMITED

INTERIM REPORT

FOR THE 6 MONTHS ENDED JUNE 30, 1973

To the Shareholders:

For the six months ended June 30, 1973 earnings were $513,000 or $0.07 per share. Figures for the comparable 1972 period have been given in accordance with the requirements of applicable legislation but are not strictly comparable because of the merger of interests of Hambro Corporation of Canada Limited and Canadian Goldale Corporation Limited effected as of September 30, 1972.

Our major investments recorded satisfactory earnings during the first six months.

The earnings of Foodex Systems Limited (60.4% owned by HMC) increased 147% to $748,914 over those for the corresponding period in 1972. The major thrust behind this growth is the Ponderosa Steak House Division. There will be at least 43 Ponderosa units operating by the end of 1973 and the original target of 80 units across Canada in 1975 is being reconsidered because of the ever-increasing popularity of this food service concept. Since the major portion of Foodex's earnings accrue in the latter half of the year, profits should be substantially ahead of 1972.

Peel-Elder Limited (48.6% owned by HMC) had net income of $687,343, a gain of almost 30% over the comparable 1972 period. Housing sales at Peel Village Highlands have been excellent; closings for this project will begin in the third quarter and will augment earnings in the second half of 1973. Construction of townhouses has commenced on company-held properties in Metropolitan Toronto.

Ontario Trust Company (52.0% owned by HMC) continues to experience growth in all aspects of its business. It reported net income of $425,854, a gain of 54% over the corresponding period in 1972. Subsequent to the end of the first half, Ontario Trust held a successful Guaranteed Investment Certificate campaign. For the first time, a trust company, in association with the investment banking community, undertook to market GICs in Ontario. The response will enable Ontario Trust to satisfy the substantial mortgage demand.

Bakham Holdings Limited (55% owned by HMC) and its 97% owned subsidiary, The Winnipeg Supply & Fuel Company, Limited achieved acceptable results.

Your Company maintains large equity positions in a limited number of listed companies. However, higher interest rates, political uncertainties, and the generally unsatisfactory condition of North American equity markets have created an environment where the excellent results and prospects of many companies have not been reflected in the market place.

We are confident that the Group's results will improve throughout the remainder of 1973. Your Company possesses a sound organization and a growing asset base which we believe can be further advanced through the application of sound merchant banking techniques.

On behalf of the Board,

E. R. E. Carter,
President and Chief Executive Officer.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED JUNE 30, 1973

(with comparative figures of Hambro Corporation of Canada Limited for 1972)

(Unaudited)

	Hambro Canada (1972) Limited Six Months ended June 30, 1973	Hambro Corporation of Canada Limited Six Months ended June 30, 1972
Profit on security trading	$ 329,000	$ 786,000
Dividends and interest	347,000	150,000
Net gain on investment portfolio changes	65,000	(17,000)
Equity in earnings of:		
Unconsolidated subsidiaries	673,000	—
Other associated companies	311,000	551,000
Management fees and other income	94,000	17,000
Earnings before the undernoted	1,819,000	1,487,000
General and administrative expenses	285,000	213,000
Interest	1,124,000	145,000
Depreciation	4,000	4,000
	1,413,000	362,000
Minority interest	74,000	69,000
	1,487,000	431,000
Earnings before income taxes and extraordinary items	332,000	1,056,000
Income taxes	(181,000)	266,000
Earnings before extraordinary items	513,000	790,000
Extraordinary items	—	140,000
Earnings for the period	$ 513,000	$ 930,000
Earnings per share before extraordinary items	$ 0.07	$ 0.17
Earnings per share	$ 0.07	$ 0.20
Based on the equivalent weighted average of the number of shares outstanding throughout the period	7,236,000	4,588,090

NOTES:

1. Trading securities are carried in the accounts at the lower of average cost and market. As of June 30, 1973, aggregate cost of trading securities was $1,454,000 higher than aggregate quoted market values. However, for purposes of determining the lower of cost and market on an aggregate basis, quoted market values at August 10, 1973 have been used. Such aggregate market values were $1,206,000 in excess of aggregate market values at June 30, 1973.

2. Figures for the comparable 1972 period have been given in accordance with the requirements of applicable legislation but are not strictly comparable because of the merger of interests of Hambro Corporation of Canada Limited and Canadian Goldale Corporation Limited effected as of September 30, 1972.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE SIX MONTHS ENDED JUNE 30, 1973

(with comparative figures of Hambro Corporation of Canada Limited for 1972)

(Unaudited)

	Hambro Canada (1972) Limited	Hambro Corporation of Canada Limited
Source of Funds:		
Proceeds on sale of		
—trading securities	$ 1,969,000	$ 4,290,000
—investment securities	560,000	4,291,000
	2,529,000	8,581,000
Increase in bank borrowings—demand	5,070,000	15,438,000
Dividends, interest and management fee income	374,000	167,000
Proceeds on sale of mortgages and sales agreements	1,017,000	—
Sale of real estate, related net assets and investment in Diversco	7,095,000	—
	$16,085,000	$24,186,000
Use of Funds:		
General operating expenditures, including income taxes	$ 1,487,000	$ 697,000
Deduct charges not requiring an outlay of funds		
Depreciation	(4,000)	(4,000)
Minority interest	(74,000)	(69,000)
	1,409,000	624,000
Acquisitions:		
Investment securities	6,024,000	20,393,000
Trading securities	4,764,000	9,346,000
	10,788,000	29,739,000
Increase (decrease) in cash and bank deposit receipts	747,000	(3,900,000)
Increase (decrease) in accounts and loans receivable	400,000	(2,311,000)
Increase in amounts receivable on delivery of securities	33,000	—
Reduction in amounts payable on receipt of securities	1,194,000	148,000
Reduction (increase) in accounts payable and deposits	665,000	(185,000)
Reduction in income taxes payable	236,000	—
Other (net)	613,000	71,000
	3,888,000	(6,177,000)
	$16,085,000	$24,186,000

NOTE:

Figures for the comparable 1972 period have been given in accordance with the requirements of applicable legislation but are not strictly comparable because of the merger of interests of Hambro Corporation of Canada Limited and Canadian Goldale Corporation Limited effected as of September 30, 1972.